



January 2007 Finance Report

Information Technology Investment Board Finance and Audit Committee January 2007

This Finance Report covers the following topics:

- Fiscal Year 2007 To Date VITA Financial Results (thru November 30, 2006)
- Cash Flow (thru December 31, 2006)
- Decentralized Services Rates Plan
- Enterprise Applications Project Office Financial Results (thru November 30, 2006)
- Governor's 2007 Budget Proposal

FY 2007 YTD Financial Results (thru November 30, 2006)

YTD Financial Results All Funds

	<i>FY 2007 Budget</i>	<i>30-Nov-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>All Funds</u>			
Revenues, including transfers in	\$317,134,283	\$127,028,069	40.1%
Expenses, including transfers out	<u>311,406,005</u>	<u>120,611,388</u>	38.7%
Net Change	<u>\$ 5,728,278</u>	6,416,681	
Retained Earnings, July 1		<u>55,281,896</u>	
Ending Retained Earnings		\$ 61,698,577	

Financial activity in all funds in fiscal year 2007 through the first five (5) months is running slightly behind budgeted revenue and expenditures.

Revenue and Expense details for various programs are described following the fund tables.

**YTD Financial Results
Internal Services Fund**

	<i>FY 2007 Budget</i>	<i>30-Nov-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>ISF</u>			
Revenues, including transfers in	\$251,923,915	\$106,390,547	42.2%
Expenses, including transfers out	<u>251,885,997</u>	<u>100,923,396</u>	40.1%
Net Change	<u>\$ 37,918</u>	5,467,151	
Retained Earnings, July 1		<u>29,555,184</u>	
Ending Retained Earnings		\$35,022,335	

The Internal Service Fund programs represent the core of VITA's business and accounts for the majority of revenues and expenses, including telecommunications, computer services, and decentralized (agency based) services. ISF expenses through November are running slightly under projections, due in largest part to intentional expenditure controls

**YTD Financial Results
Enterprise Funds**

	<i>FY 2007 Budget</i>	<i>30-Nov-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Enterprise</u>			
Revenues, including transfers in	\$54,222,802	\$18,434,558	34.0%
Expenses, including transfers out	<u>48,532,442</u>	<u>16,199,660</u>	33.4%
Net Change	<u>\$ 5,690,360</u>	2,234,898	
Retained Earnings, July 1		<u>21,736,063</u>	
Ending Retained Earnings		\$23,970,961	

VITA's Enterprise Funds is comprised solely of the Wireless E-911 fund. Year-to-date revenue collections and expenditures in this program, appear to be running behind budget for two reasons.

1. Revenue remittance to VITA runs about 30 days behind revenue collection by the carrier. As a result, the first collections received in July and August were actually incurred in the last fiscal year. November revenues have not yet been collected.

2. E-911 grant payments to localities (the largest expense) are based on collection, and in the past quarter were delayed due to slow reporting by some localities. Though we are supposed to be paying the localities monthly based on the revenue collected, we have only been able to make one quarterly payment.

**YTD Financial Results
General Fund**

<u>GF</u>	<i>FY 2007 Budget</i>	<i>30-Nov-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
Revenues, including transfers in	\$6,203,080	\$ 0	0%
Expenses, including transfers out	<u>6,203,080</u>	<u>0</u>	0%
Net Change	<u>\$ 0</u>	0	
Retained Earnings, July 1		<u>0</u>	
Ending Retained Earnings		<u>\$ 0</u>	

The General Fund (GF) in VITA's budget this year is made up of two components: 1) certain overhead costs not allowable for indirect cost charge-back, and 2) the costs for updating the Virginia Base Map (VGIN program). The former is off-set, or in effect more than "wiped-out", by amendments in last year's Budget Bill related to projected "VITA savings", and is the subject of a budget amendment request discussed further in the October Board report and elsewhere in this document. The shortfall in this appropriation has presented operational challenges for VITA year to date, but simply stated since no appropriation has been available there have been no expenditures. Those expenditures that would otherwise have been charged to GF have been borne by the Internal Service Fund program. If, and when the "VITA savings" issue is addressed, year-to-date charges between the two programs can be reconciled. In the case of the VGIN appropriation, transfer of funds into this account has not occurred through November, as no expenditures have been required year to date. A transfer request has however been made, and expenditures associated with the digital orthophotography, data aggregation, and quality control will occur in subsequent months of FY 2007.

**YTD Financial Results
Special Revenue Funds**

	<i>FY 2007 Budget</i>	<i>30-Nov-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Special</u>			
Revenues, including transfers in	\$4,416,976	\$2,202,964	49.9%
Expenses, including transfers out	<u>4,416,976</u>	<u>3,193,797</u>	72.3%
Net Change	<u>\$ 0</u>	(990,833)	
Retained Earnings, July 1		<u>3,438,339</u>	
Ending Retained Earnings		<u>\$2,447,506</u>	

Special Revenue Funds are comprised of revenue collections and expenditures to support procurement and contractual services (IFA), public-private partnerships (PPEA), Virginia Geographic Information System (VGIN) services, and the Virginia Technology Infrastructure fund. IFA revenues ran well ahead of estimates in the last fiscal year, in part because of improvements in recording and collection efforts. This account funds acquisition and general government activities, including support to the Governor's Office that would not normally be included as overhead billed to state agencies and other customers. IFA revenues this year continue to run ahead of estimates. We have therefore increased expenditures against this fund source to use fund balances to, in part, off-set the impact of revenue shortfalls in the agency's major funding programs – Internal Service Funds – based on the impact of actions by the HHS-DCA relating to federal fund payments.

**YTD Financial Results
Federal Funds**

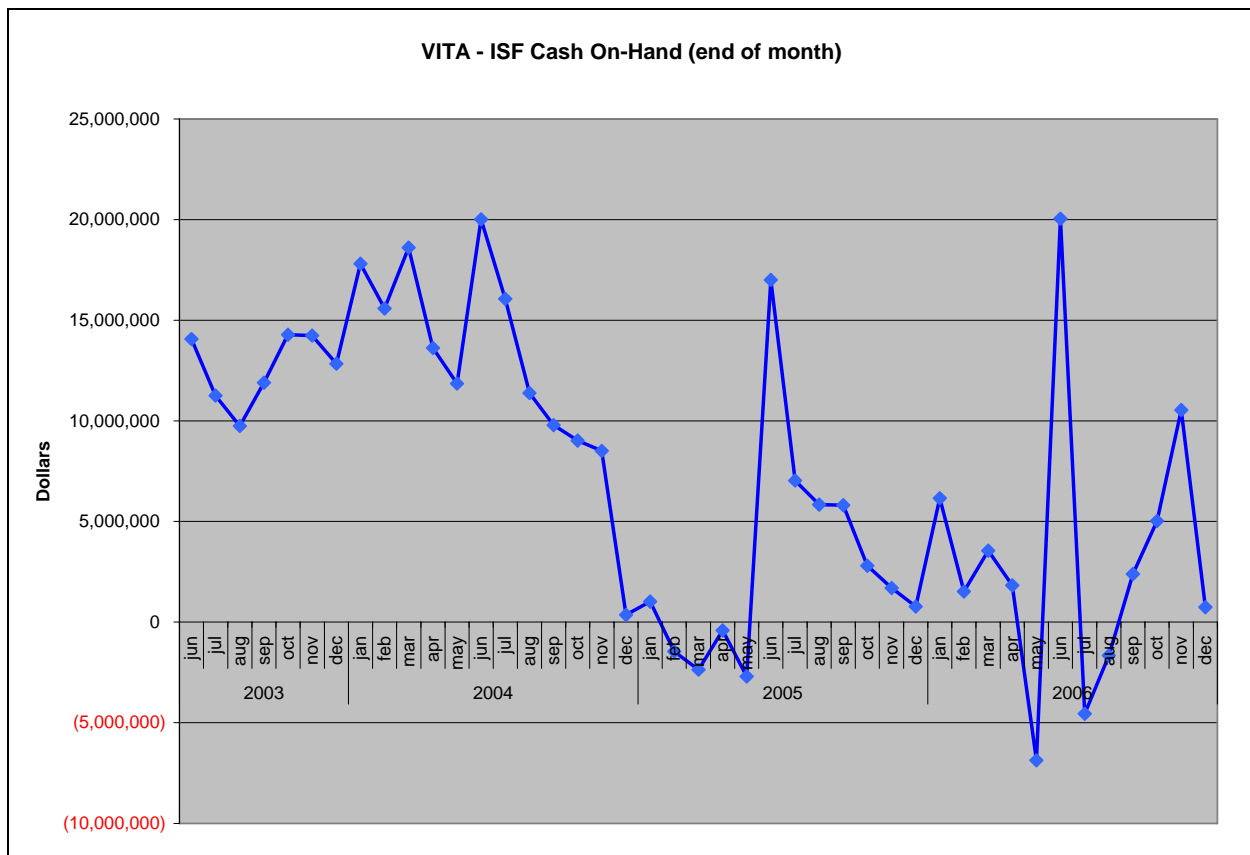
	<i>FY 2007 Budget</i>	<i>30-Nov-06 YTD Actual</i>	<i>Actual as a % of Budget</i>
<u>Federal</u>			
Revenues, including transfers in	\$367,510	\$ 0	0%
Expenses, including transfers out	<u>367,510</u>	<u>294,535</u>	80.1%
Net Change	<u>\$ 0</u>	(294,535)	
Retained Earnings, July 1		<u>552,310</u>	
Ending Retained Earnings		<u>\$ 257,775</u>	

In FY 2006 VITA received \$1.7 million in Homeland Security Grant funds, and expended about \$1.4 million. The year-end balance carried-forward of about \$0.6 million is obligated for the completion of the two federally supported projects involved and about half of that has been spent through November.

Cash Flow – Internal Service Fund (ISF)

ISF Cash with Treasurer of Virginia

30-Jun-06	\$ 20,037,685
31-December-06 (preliminary)	\$ 736,630



The chart above indicates the impact on VITA cash flow of periods of transformation. Even before VITA was created, its predecessor agencies had operated by capitalizing agency expenditures, paying personal service and other costs, and then seeking reimbursement from state and local agencies receiving services.

When VITA was created that same charge-back and rate allocation system was applied to the consolidated agency. The chart indicates that after years of operating under the previous system,

revenues and expenditures, and therefore cash flow, was relatively smooth. That was true until early in calendar year 2005 when all of the “large” agencies were merged in and the VITA consolidation was complete. Cash-flow was in negative territory for almost all the first half of that year.

Recognizing the potential impact of the Northrop-Grumman agreement on cash-flow, the Memorandums of Understanding process was in part designed to smooth transition. After the traditional year-end, discretionary spending spikes (which are clearly evident in 2005 and 2006) during the first quarter of this fiscal year -- another transition period – and there is another clear change in the pattern. . VITA ended three of the past six months with negative or very little cash on-hand. The explanation for this is relatively simple – many of the state agencies have simply not paid, short paid, or are slow paying their VITA MOU bills. This situation has then been further compounded during the past quarter, when certain federally supported state agencies were instructed to stop paying VITA decentralized services bills, while a revised rate plan was developed acceptable to the Department of Health and Human Services. That issue is further discussed in the following section.

Decentralized Services Rates Plan

On December 11, the Joint Legislative Audit and Review Commission (JLARC) approved VITA’s proposed decentralized rate structure for agency-based IT services.

On December 15, the Governor’s Budget proposal for the 2006-08 biennium was presented. It included language which recognized that future changes may be necessary to address the implementation of this revised plan during the current biennium.

The U.S. Department of Health and Human Services (HHS) Division of Cost Allocation (DCA), in a letter dated December 20, responded regarding the revised plan, and with some reservations and interest in cost reconciliation at the end of the current fiscal year, accepted VITA proceeding with the revised plan. A copy of the letter from HHS-DCA is attached.

To comply with HHS-DCA requirements, a single statewide rate structure will be implemented retroactive to July 1, 2006, for desktop services, servers, local area network devices and network access. The new rate structure will impact some agencies in the form of higher charges. For other agencies, it will result in lower charges than identified in the previous Memorandum of Understanding process.

VITA has been working closely with the Department of Planning and Budget to address the impact of these changes and they will be meeting jointly with Executive Branch agencies to review individual charge-back plans in the New Year.

Enterprise Applications Project Office

Enterprise Applications Public-Private Partnership Project Office

Budget Actual Statements

Fiscal Year 2007

As of November 30, 2006

Category	Annual Budget	Actual	Remaining Budget
Personnel	431,964.00	53,256.26	378,707.74
Office Space	24,500.00	0.00	24,500.00
Operational Costs	16,706.00	4,376.09	12,329.91
Other	7,881.00	2,235.17	5,645.83
Contracts	55,949.00	54,260.74	1,688.26
Office Supplies	3,000.00	434.87	2,565.13
Travel/Business Meals	10,000.00	1,888.29	8,111.71
Totals	<u>550,000.00</u> <1>	<u>116,451.42</u>	<u>433,548.58</u>

<1> During the month of December, the ITIB approved the allotment of the remainder of the funds for EAPPPPO. During December an allotment transaction in the amount of \$4,950,000 will be processed bringing the total EAPPPPO appropriation to the full \$5,500,000 (per Chapter 3 of the Appropriations Act).

Prepared by the Department of Accounts

December 19, 2006

The Enterprise Applications (EA) Program received ITIB approval for the release of the remainder of 2007 funds on December 7, 2006. As a result of that approval, a Statement of Work was signed with CGI, Inc. to complete detailed planning and product selection tasks. CGI staff are scheduled to begin work on January 3, 2007. The EA Program received 5 vendor responses for the Independent Verification and Validation (IV&V) task order. The project team is currently evaluating those responses and will make a recommendation to VITA PMD and then submit to the EA Advisory Team for consideration. Vendor selection is expected to be completed by January 12th, 2007. The Project team is working closely with VITA Supply Chain staff to develop the ERP Software RFP. The RFP Evaluation Team has been identified and RFP development meetings are scheduled for the first week in January. Gartner has been engaged to facilitate the production of functional requirements for the RFP. The RFP is expected to be released in February 2007.

Interviews for the permanent EA Director are being conducted. The goal is to have the position filled by the first quarter 2007.

Given the Board's action in December (this report covers only thru November) future EA-ERP financial reports will be made using the following format:

	Annual Budget	Actual (11/30/06)	Remaining Budget
Personnel	931,964.00	53,256.26	878,707.74
<i>EA Project Management</i>			
Office	431,964.00	53,256.26	378,707.74
CoVA Project Team	500,000.00	0.00	500,000.00
Office Space	24,500.00	0.00	24,500.00
Operational Costs	16,706.00	4,376.09	12,329.91
Other	7,881.00	2,235.17	5,645.83
Contracts	4,505,949.00	54,260.74	4,451,688.26
<i>Planning Support</i>	55,949.00	54,260.74	1,688.26
CGI Fixed Fee	1,200,000.00	0.00	1,200,000.00
CGI T&M	2,985,000.00	0.00	2,985,000.00
IV&V	50,000.00	0.00	50,000.00
Tax System Mods	150,000.00	0.00	150,000.00
Software RFP	65,000.00	0.00	65,000.00
Office Supplies	3,000.00	434.87	2,565.13
Travel/Business Meals	10,000.00	1,888.29	8,111.71
Total:	5,500,000.00	116,451.42	5,383,548.58

Governor's 2007 Budget Proposals

On December 15, 2006, Governor Kaine presented to the General Assembly money committees his proposed updates to the 2006 – 2008 Biennial Budget. The Budget Bill (HB 1650/SB 750) includes most of the revisions sought by VITA. A comparison of the VITA budget request (approved by the ITIB on October 18, 2006, and submitted the same day) to the Bill's recommendations is provided in the following table:

<u>SUMMARY OF VITA BUDGET SUBMISSION TO DPB BY DECISION PACKAGE</u>							
<u>Decision Package</u>	<u>Fund</u>	<u>FTEs</u>		<u>FY 2007 \$</u>		<u>FY 2008 \$</u>	
		<u>Req</u>	<u>Rec</u>	<u>Req</u>	<u>Rec</u>	<u>Req</u>	<u>Rec</u>
<i>Restore GF "savings"</i>	GF	0	0	3,288,000	3,288,000	1,644,000	0
<i>Adjust ISF rates</i>	ISF	0	0	33,147,957	33,147,957	43,353,507	43,353,507
Statewide services				31,497,957	31,497,957	40,747,957	40,747,957
GIS/VBMP				0	0	713,113	713,113
Project Mgt				1,650,000	1,650,000	1,892,437	1,892,437
<i>Increase LOC to \$25M*</i>	ISF	0	0	N/A	N/A	N/A	N/A
<i>Adjust position level</i>	ISF	(623)	(653)	N/A	N/A	N/A	N/A
<i>Locate telework site</i>	ISF	0	0	50,000	0	50,000	0
TOTALS		(623)	(653)	36,485,957	36,435,957	45,047,507	43,353,507
* Original request was \$10M;							

As discussed at the October Board meeting, most of VITA's budget consists of *sum sufficient* appropriations. The proposed state budget has been updated to reflect the amounts that VITA anticipates earning with the new decentralized rates in place, and additionally to be consistent with the revenue requirements of the IT partnership.

VITA's concerns relative to the introduced Budget Bill are:

- **Restore GF "savings"** – The same factors that make achieving savings in FY 2007 untenable persist in FY 2008 and beyond, and the Governor's Budget proposal took no action to change the second year. With Northrop Grumman having operational responsibility for services beginning this year, any cost savings, economies of scale, and so forth will be leveraged for transformation of the statewide IT infrastructure
- **Adjust position level** – The Governor's Budget proposal recommends greater reductions in positions than VITA reported based on vacancies and transfers to NG and may not be feasible to maintain existing commitments (i.e. security recruitments). Specifically, the second year reduction – which would bring VITA's employment cap down to 400 positions – appears too low in light of a projected filled FTE count of at least 404 on July 1, 2007. An executive amendment to keep the FY 2008 position level consistent with FY 2007's bottom line of 425 positions has been requested.

VITA staff will continue to track the progress of these amendments and other budget-related items of interest during the 2007 General Assembly session commencing on January 10. The diagram on the following page depicts the products and events being monitored and analyzed:

